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THE JOURNAL OF POLITICAL ECONOMY

MAY—1907

THE COMMERCIAL POLICY OF GERMANY

I

In 1834, when the German *Zollverein* went into operation, there were within the limits of the present German Empire between 30 and 31 millions of people. The vast majority of them were then supported by agriculture; industry and commerce, so far as they were then developed, were carried on on a small scale. In 1905, on the other hand, there existed on the same soil 60.6 millions of people. The excess of births over deaths was even greater than these figures would lead us to suppose. For several decades Germany has lost great numbers of her citizens by emigration. Millions of emigrants have found a new home in the United States. In the last fifteen years, however, this emigration has greatly diminished. The population tends to remain in Germany, and there to obtain its livelihood. In what way, then, has this surplus of population obtained its support? How has it come about that nearly twice as many people now live in Germany, and are richer, better fed, and better housed, than in 1834?

In answer to this question, it is to be noticed that only a small proportion of this surplus population is engaged in agriculture. There can be no question that agricultural effort has become more productive: there has been more efficient specialization, industrial by-work has been separated from agriculture,

and the agricultural processes have been rendered more effective; moreover, there have been great improvements made in the technique of agriculture and in the methods of selling agricultural products, etc. However this may be, the great bulk of the increased population does not obtain its support by agriculture. The census returns show that Germany is becoming more and more an industrial nation. Not that the farms have been deserted, but that the surplus of population has been turned into industry, commerce, and transportation. It is a well-known fact that, in 1895, out of every 100 of the population engaged in gainful occupation, 37.5 were occupied in agriculture, forestry, and fisheries, and 48 in industry, commerce, and transportation.¹

During this transformation of Germany into an industrial nation the population of the cities increased enormously. We can also observe the effects of this same process in the statistics of foreign commerce. In the returns of 1837-39, wheat, rye, etc., made up a large part of the then small exports; while the excess of exports of cereals over the imports had a value of nearly 30 million marks. In contrast with these figures it is to be observed that today the imports of Germany consist principally of food-stuffs and raw materials of manufacture, while the exports consist of manufactured articles.

At the very time of the industrial transformation a transformation of taxation was going on. Seventy years ago the agricultural population paid the largest part of the taxes. While today a greater sum of taxation per capita is of course collected, yet this is paid chiefly by people other than agriculturists. Even those politicians who do not at all approve, and who do not fully acknowledge the magnitude, of the industrial transformation, have joined energetically in the work of lightening the agricultural taxation and of increasing the burden upon the non-agricultural population. Prussia, which represents three-fifths of the German population, may be taken as typical. In 1901 the town population of Prussia paid an income tax of 8.61 marks

¹ See W. Sombart, *Die deutsche Volkswirtschaft im neunzehnten Jahrhundert* (Berlin, 1903); H. Rauchberg, *Die Berufs- und Gewerbe-Zählung im Deutschen Reich vom 14. Juni 1895* (Berlin, 1905); *Schriften des Vereins für Sozialpolitik*, Vol. L, p. 92 (Leipzig).

per capita, or 126.5 million marks, to the state; while the rural population paid 2.16 marks per capita, or 41.6 million marks in all. In these figures the payments of corporations are not included; if they were, their income tax would increase still more the relatively greater contribution of the non-rural population.

The question before us is whether the economic policy of Germany has been properly adapted to the industrial transformation or not. In order to answer this fundamental question, we must study not only the customs duties and commercial treaties, but also, in the period since 1880, the transportation policies of the state railways, as well as the development of inland waterways; and we must not omit to take some notice of the German constitutional situation.

From 1834 to 1848 it was the policy to develop German industries by protective duties which were steadily raised. Not only was this policy enforced by customs duties, but still greater assistance was rendered by public funds which have been devoted from that time to the present day to industrial as well as to agricultural instruction. Nevertheless, the sacrifices imposed upon the nation by duties of a protective nature, based on the "infant industries" argument, were not unimportant. After 1862, however, the commercial policy was modified. The industrial exports had increased. The government had come to believe that the time had arrived for German industries to live without protective duties. From 1862 to 1877, in some cases by commercial treaties, and in other cases by autonomous legislation, industrial duties were gradually lowered and abolished. Some few industries were opposed to these free-trade measures; but down to 1873 even those industries which complained of the tariff reduction had made great progress after each free-trade reform. The agriculturalists, until 1875, made no opposition to free trade; on the contrary, both Conservative and Liberal agriculturalists were the most radical free-traders.

During the first decade of the German Empire—more exactly from 1871 to 1878—the Liberal parties had a majority, not only in the Reichstag, or the federal parliament, but also in the diet

of the most influential state, Prussia. The elective franchise, however, is not the same for the federal as for the several state parliaments. The franchise for the Reichstag is quite democratic—universal and equal suffrage with a secret ballot. In Prussia to the present time the political power of the electors varies according to the amount of direct taxes paid; nor do the electors have the secret ballot. People, therefore, who are dependent upon others are easily controlled by their employers and by state officials, if they should be inclined to elect opposition candidates.

Neither in federal politics nor in the politics of the several states is there realized what English-speaking people would call responsible party government. The parties are numerous and at odds with each other. It is not the custom to call the party leaders into the government. Generally speaking, those persons are called to be members of the cabinet upon whom the monarchs can rely. Usually permanent administrative officers, sometimes also Conservative politicians, become ministers and secretaries of state. More rarely some Liberal business man not of noble birth is made a minister; but then he is expected to leave his party when entering the public service. As a consequence, the government leaders do not have an organized control over the parties upon which they depend for a vote on the budget.

Until 1878 Prince Bismarck had maintained close relations with the Liberal Party of that time. The agricultural laborers did not, on the whole, join in the Social Democratic movement, which then remained chiefly industrial. In fact, to the present time the agricultural laborers are not an organized factor in politics. To this very day they are controlled chiefly by the Conservatives and Clericals, or elements other than Liberals and Socialists.

Until 1878 the political parties in Germany were not primarily the representatives of special economic interests. After the adoption of the protectionist programme by Prince Bismarck the character of the political parties was changed. Free-traders among the Conservatives and Clericals, and also among the

Moderate Liberals, disappeared. After 1879, Bismarck ruled Germany by majorities, made up at one time of Conservatives and Moderate Liberals, and at another time of Conservatives and Clericals. Those who voted for army and navy expenses were rewarded by special favors. These special favors consisted of measures "for the protection of German labor"—that is, protective tariff duties—and, after the nationalization of the railways, of a protective policy carried out by railway rates. Special favors to the Clerical party appeared in the form of a revision of the anti-clerical legislation—that is, of the *Kulturkampfgesetzgebung*.

It would be an exaggeration to suppose that Prince Bismarck imposed protectionism upon Germany against public opinion; in truth he educated Germany to protectionism. Since 1875 a protectionist movement was developing among the Conservative landlords—a movement influenced by the effects upon the German market of the importation of wheat from America and of cheap grain from Russia. Moreover, some industries which had suffered by the crisis of 1873 joined the protectionist alliance. The protected industries at the beginning would have preferred industrial protection without duties upon agricultural products; but, since they could not get protection for themselves alone, they favored what was called a system of solidarity of protectionists. Prince Bismarck himself, who had for many years been a believer in free trade, became in his old age a convinced protectionist. His great authority, in spite of the change in his convictions, contributed powerfully to the victory of protectionism; and the free-traders were driven into opposition without political influence.

The programme of the government from 1879 until 1890 demanded protective duties both on food-stuffs and on manufactured goods, but the free importation of raw materials for the use of industries. As far as possible, Prince Bismarck tried to avoid the establishment of tariffs by treaties; he believed in an autonomous tariff policy. Only in case the protectionists' interests were not at all affected, as in some treaties with Spain, Italy, and Greece, did he permit tariff rates to be affected. In the main,

Prince Bismarck, like the mercantilists, believed that the advantage of one party through a commercial treaty was gained at the loss of the other. It was his purpose to reserve for Germany an opportunity to increase her protective duties, especially on agricultural products; and he increased them in 1885 and 1887. On the whole, differential customs duties were not applied; generally speaking, all countries were equally well or badly treated. Germany demanded, and accorded to other nations, the treatment of the most favored nations; consequently there was little chance to obtain from other nations any promise not to raise their tariffs against Germany, since Germany herself was not inclined to grant this condition. Only on special occasions, by virtue of the political situation, Germany contrived to get such promises from some of the smaller powers. The greater powers, excepting England, but including Russia, the United States, Austria, and France, answered Germany by raising their tariffs on German articles. In several countries however, the protectionist movement had already become effective before Germany changed her policy.

Why did not the enhancement of foreign tariffs have a more injurious effect upon Germany's exports? Until 1892 this result must be placed to the credit of France. The French government had until 1892 maintained the policy of entering into tariff treaties with European countries; consequently, a general rise of tariff must in some measure be hindered, and as a result of claiming the rights of the most favored nation Germany's export' received the advantage of the attitude taken by France.

Apart from the influence of the protectionist policy upon her foreign trade, it is now necessary to discuss its effects upon the internal development of Germany. Until 1888 the prices of food in Germany were cheaper than in the period about 1870-73. The prices of grain in the world's markets fell so low that, in the beginning, the effect of protection to agriculture only prevented prices from falling as much in Germany as they did for example in Great Britain. Consequently, at the start consumers did not feel any artificial rise in the prices of food. At the same

time, the agriculturalists did not cease to complain that the protection to their products had not been sufficiently effective. So far as the non-agricultural industries were concerned, the effect was not the same for them all. The extractive industries, such as the mining of coal and iron, and those industries which transformed raw materials into half-finished goods, retained nearly the same advantages as under full free trade. After a period of wild competition, some of them combined into "cartells" or pools, and thus contrived to obtain, as sellers, higher prices in Germany than abroad. The protectionist railroad tariff, however, would have caused some disagreeable effects, had not the inland waterways, especially the Rhine, given the means of cheap transportation for imports.

The situation of those industries which bought half-finished goods from German producers and from abroad, and transformed them into finished goods, became much more difficult. These industries were accustomed to send a considerable part of their manufactured goods abroad. The "infant industries" argument in favor of protection to manufacturers had at that time no validity at all for Germany. The true meaning of industrial protection was disclosed by enabling those who were able to combine into "cartells" to obtain higher prices within the country than abroad, and to employ the gain got from the domestic market in order to sell cheaply abroad; while those who were not able to form "cartells" were placed at a great disadvantage and were obliged to produce their goods at higher costs than under free trade. The latter class were, nevertheless, forced to export the excess of their products, but under more onerous conditions than before. Many industries, especially those which produce finished goods, work under circumstances which do not allow the formation of "cartells." They produce a great variety of articles, the demand for which changes with changing fashions; or they are engaged in producing, not a few standard articles, but a great variety of objects. They do not want protection; they want cheap materials and no obstacles to exportation. Such industries have suffered from the protectionist policy.

Notwithstanding all of this, the industrial development brought some advantages to Germany. It is, to be sure, an error to praise the protectionist system as one which protects the weakest. On the contrary, in Germany it has worked in favor of the strongest industrial producers; and, so far as industry upon a large scale is more productive than that on a small scale, and so far as large production is an element of progress, it was furthered by the protectionist policy.

But it would not be correct to ascribe all the progress of German industry to the effects of the tariff policy. Germany at that time had begun to reap the ripe fruits of inventions, of her excellent technical high schools, and of the system of obligatory primary schools. A period of uninterrupted peace, and a system of taxation which was less oppressive and less irrational than in some other European countries, favored the increase of capital. Moreover, the German banks in this period had learned how to apportion wisely the sums saved by the people between German and foreign investments, and thus to help efficiently in the development of industrial concerns at home. The courts of justice, and the state and the municipal administrations, were free from corruption, and, on the whole, had a beneficial influence on the economic life. The railway rates could have been cheaper, but there existed two advantages of a state railroad system which cannot be denied: highly efficient technical service and no preferential treatment of any private shippers.

But there were not only the bright phases in the economic situation; there were also some dark ones; and of these dark phases there are some which yet exercise great influence.

In other countries the existence of an opposition is regarded as healthy and beneficial. Where bureaucracy exists opposition is regarded as an evil. In Germany the opposition parties are not regarded as a necessary institution in working out the control of public life; moreover, the opposition parties are inclined to adopt a merely negative policy, since there will be no opportunity for them at any time to come into office and to assume responsibility. The character of the political situation under Prince Bismarck is shown by the fact that people who voted formerly for

protection in fact voted also for army and navy expenses, and were thereby regarded as patriots. The free-traders, now chiefly Radicals and the Social Democracy, regularly voted against army and navy expenses, or at least against new taxes. The adversaries of Prince Bismarck's policy at that time were usually termed "enemies of the empire." After the nefarious attempts on the life of Emperor William I, the Social Democracy in particular was regarded until 1890 as a party of non-loyalists. The law against the socialists did not operate to check socialism, but it had two other effects: first, trade-unionism was repressed, and for a long time, even after the abolition of the anti-socialist law, it had little or no development; secondly, at each election for the Reichstag, or federal parliament, the extreme socialists gained more and more votes. It is to be observed, of course, that Bismarck's policy did not aim only at the suppression of the socialists; he introduced laws, supported by the government, for a magnificent system of social insurance, by which the workman would obtain benefits when he became sick, or invalided by old age, or when he suffered from an accident. Still the workmen demanded equality of rights in the battle for better wages and shorter hours of work; they demanded freedom of movement, so long as they were not suffering from sickness, infirmity, or accident; they demanded political freedom, which ideal, in the eyes of the workmen, everywhere seems to be realized by a radically democratic constitution. All these demands were not granted. The socialists were regarded as, and admitted themselves to be, revolutionaries and they were distinctly opposed to the monarchical constitution prevailing in government. As a consequence of this attitude, many prosecutions and convictions were carried on through the courts, and the administrative organs allowed themselves to engage in many persecutions. Those who were condemned were regarded by the workmen as martyrs, and the more they were persecuted, the more followers they obtained. Because of the political character given to the labor movement, trade-unionism was stunted, and, notwithstanding the importance of the industrial classes, and notwithstanding the universal suffrage, the political influence of these classes remained insignificant.

By way of summary it may be said that until 1890, and to some extent to the present time, Germany's industrial situation has been acknowledged only by a distribution of the burdens of taxation, but not by a distribution of political influence. It is to be added that the economic policy was adapted in some degree, but not perfectly, to the interests of industrial capitalists; while, on the other hand, the industrial workmen were not persuaded that in the new German Empire they had obtained their share of freedom of movement and political influence. The future development of Germany is to be interpreted in the light of the fact that industrial capitalists and industrial workmen are not organized in one body for their common economic advantage. Therefore the agrarians retain a preponderating influence over the situation, which is not justified by the share which they carry of the burdens of the empire and of the several states.

II

After Bismarck's dismissal, in 1890, it seemed for a short time as if a radical change in the situation was at hand. Bismarck's successor, General von Caprivi, was by conviction a Conservative, but his benevolent and righteous disposition did not incline him to maintain the violent methods which Bismarck's genius had adopted in the last decade of his domination. The social and commercial policy of the empire was radically changed. In place of anti-socialist legislation, great progress was made in legislation for the protection of women and children in factories. Instead of a policy of violent suppression directed against those of foreign nationalities living in Germany, there ensued for a few years a policy which aimed to treat all German citizens according to the same enlightened principles. Instead of an autonomous tariff system with high protective duties, there was introduced after 1892 a policy of regulating and lowering of tariff duties by international treaties. The protection accorded to agriculture was reduced, but the industrial duties were not much altered.

What was the cause of this change in commercial policy? Two causes had the chief influence upon the government and

upon public opinion. First, after 1888 the prices of food began to rise throughout the world, and by 1891 they reached such a height that the very existence of agricultural protection seemed to be in serious danger. Secondly, after 1892 France was not at all inclined to continue the policy of regulating tariff duties with European countries by treaties; and Germany could no longer obtain the advantage resulting from the endeavors of other nations at stopping the general increase of European tariffs. France resolved to adopt the system of an autonomous maximum and minimum tariff, and she was not willing to enter into international agreements which would restrict her in making alterations in the tariff. Germany then could not well avoid playing the rôle, which to that time had been played by France, as a champion of a policy of tariff treaties throughout Europe.

The first treaties proposed by Caprivi were adopted by an enormous majority in the Reichstag. The later treaties, especially that with Russia in 1894, found many opponents among the Conservatives and Moderate Liberal parties, and they were carried through only by the support of the Radical, the Socialist, and a part of the Clerical parties. The year 1891 was followed by years of very rich harvests and very low prices of food, which raised discontent among agriculturalists of all parts of the world. In Germany other causes than the altered commercial policies helped to keep down the prices of food. Favored by Caprivi's mighty opponent, the old Prince Bismarck, the agrarian protectionists, after 1892-93, organized a very strong league and opposed Caprivi with reckless energy and irreconcilable hatred. In 1893 Caprivi saw that the parties which continued to support his commercial policy would not be willing to support the military scheme proposed by the government. His resignation from office, however, was not caused by parliamentary defeats, but by other and somewhat mysterious causes. Since 1894, under Hohenlohe and Bülow, the government of the German Empire and the governments of the several states have been striving to reconcile the angry agrarians. Meanwhile the industrial capitalists were somewhat indolent in politics. They were absorbed in making money, and from 1895

to 1900 their business was so prosperous that they did not care much about the commercial policy of the future. They unfortunately maintained a position of political antagonism toward their workmen, and this political antagonism, which exists to the present time, is responsible for many errors committed on each side. In addition, the industrial capitalists have been divided into two hostile sections: first, the protectionist section, which is very ably organized, and which is controlled chiefly by the iron-masters and cotton-spinners; and, secondly, the section more inclined toward free trade, which is guided by the chemical industries and many other industries whose finished products are of such a nature as to afford no opportunity of forming "cartells" or to obtain no advantage by such organization.

The treaties concluded by Caprivi remained in force until March, 1906. Under this régime the wealth of Germany made very great progress; not only the foreign trade, but also the home consumption, increased as never before. Nor were the industrial capitalists the only ones who grew richer and richer; the industrial working class also obtained higher wages, and a higher standard of living was wide-spread. Not only in the great cities, but also throughout the country, the organizations of workmen began to be recognized by the smaller employers as a factor entitled to equal consideration in establishing the contract for labor. This attitude makes headway daily. In the largest industries, on the other hand, in Rhineland, Westphalia, Saxony, and Silesia, trade-unionism to the present time remains very weak, and the workmen are in discord among themselves; their organizations are little recognized by mine-owners, iron-masters, and master-spinners as a factor entitled to influence the contracts for labor; and in those large industries there are no boards of arbitration and conciliation, as in the Anglo-Saxon world. Consequently, there is no social peace, and no means have yet been devised for the permanent regulation of the conditions of labor by agreements between the organizations of both parties. It is therefore to be understood that at the present time there is no political alliance between the captains of industry and the workmen of the large industries of Germany; but, on

the contrary, bitter social and political strife prevails between them. As a consequence of this situation, the political influence of the whole industry upon the country is lessened; and, more than that, it is to be remembered that the distribution of the elective franchise is unfavorable to industry as compared with agriculture. The population of Germany has increased from 40 millions in 1841 to 60 millions at the present time. Still not all districts have made the same progress, and only the industrial sections have attracted the surplus of population. The apportionment of the electoral districts for the Reichstag and for the Prussian diet has for a long time been a source of injustice. Today the districts which have not shared in the progress of industry and population still elect the same number of representatives to which they were entitled in 1871, while the densely populated industrial districts have no more representatives than they had in 1871. Thus the agricultural districts retain a dominating influence solely because a just redistribution of electoral districts has not been carried out. Those districts which have remained stationary rule Germany today, and they are protectionist. Why is it that they are protectionist?

As regards agriculture, one must make a distinction between the region east of the river Elbe and the region in the west and south of Germany. In the eastern section feudalism has resulted in a system of farming on a large scale and in the concentration of the ownership of land. In the south and west, on the other hand, the small peasants prevail. Everywhere throughout Germany there exists a system of cultivation through the management of the owner of the land, and not under a system of tenants, as in England. There are, of course, some small landowners in the east, but they have not the same influence as in the west. The typical agriculturalist in the east is the great landlord. The great landowners of the east produce for the market wheat, rye, and potatoes, from which they distil spirits; and some also produce sugar beets. They have made much money by distilling spirits on the farm and by the cultivation of beets; and until 1873 they also profited largely through the sale of large quantities of wheat and especially of rye.

With the industrialization of Germany wheat bread more and more took the place of rye bread. But until 1873 the prices of all sorts of grain had on the average steadily advanced. The values of the farms, however, advanced in a greater proportion than the rise in the prices of grain. Very often the high prices of the land could not be fully paid in cash by the purchaser, and mortgages were given. The working capital at the disposal of the great owners was often insufficient; very often indeed they were not specially trained for farming. Even during the period when the prices of grain were advancing, the indebtedness of the land-owners increased enormously. Moreover, even in this period of prosperity the great farm-owners had difficulty with their laborers. Ever since the abolition of the feudal system and of enforced service, farming on a large scale has become difficult. The production of grain on a large scale does not afford remunerative work for free laborers during the whole year. In the course of time the laborers departed, at first in order to emigrate to foreign countries; but later, after the extensive industrial development, they have turned to the industrial employments and to the coal-mines. Finally, the crisis came when the prices of grain went down.

The fall in the prices of farm lands had been prevented by the psychological effect of the introduction of protective duties on agricultural products. Grain prices, on the other hand, did not maintain the height of 1873. By 1893-95 prices of agricultural products had fallen so low that owners of the big farms in the east began to despair. Since 1895, however, prices have begun to rise more or less. During this period great progress had been made in agricultural technique. Hard times educated the farm-owners of the east to learn their trade more thoroughly. Today the better-cultivated farms of the east depend no longer on the selling of grain and spirits alone. The stock of cattle has increased; yet even now our statistics show that in Germany the stock of cattle per acre is smaller as the farm is greater; and it is shown that in the larger, but not in the smaller, farms the receipts from grain exceed the receipts from dairy produce and cattle.

In reality, the eastern landlords have never ceased the complaint of bad times since 1879, whether the duties on grain were high or low. There has been, of course, a good deal of exaggeration; but there is nevertheless a kernel of truth in their complaints. The chronic difficulties are the indebtedness of the large owners and the scarcity of laborers. So long as industrial capitalists will pay higher wages for shorter hours of work, and will give more freedom and more regular employment, this labor difficulty will continue. Especially where all the land is monopolized by a few persons, the agricultural laborers see no chance of becoming independent owners of parcels of land, and hence they go away. The great proprietors of the east began to engage laborers for the season, mostly from Russia and Austria; some also engaged prisoners. More and more did the tendency for the rest of the permanent laborers to go away increase. Recently some great landlords have employed Polish workmen, not only for the harvest, but for all their work. A policy which proclaimed its intention to protect the German workmen against foreign workmen has ended in a system of protection to grain raised in Germany by foreign labor.

If farming on a large scale meets such difficulties, why are not the great farms in the east divided into small parcels? This process has begun; but it has not made as much progress as the situation demands. For this there are several reasons. One is that the great proprietors in the east are imbued with feudal traditions, and wish to preserve as great farmers a dominating political and social position which they are not willing to sacrifice. They see already that the industrial capitalists are becoming much richer than the agricultural class, and they fear that they may more and more lose that social position which depends upon wealth. They have paid such high prices for their land, and have incurred such great indebtedness, that if they were to sell their farms and go to the town, they would possess very little capital and no great social position.

Thus the landlords of the east believed that their only escape rested in the possibility of obtaining higher prices for grain. Yet they needed the political help of the small peasants of the south

and west. Had they only recommended an increase in the duties on rye and wheat, they would not have obtained the support of the peasants in the west. Of course, in the west and south there is also some grain sold; but the position of the average small peasant in these sections of Germany is not the same as that of the great owners of the east. The peasants have no sympathy with the feudal ideals imbedded in the minds of the average landowner of the east and of the parvenus who strive to imitate the eastern noblemen. These peasants are indebted for all that they are to the abolition of feudalism. They do not suffer as do the great owners of the east from similar difficulties with the labor question. The family of the small peasant very often helps to do the agricultural work, and his hired servants are not separated from him by any social scale; they dine at the peasant's table; and from their wages as servants they very often save enough to purchase parcels of land where it is not monopolized by a few peasants. The variety of fruit produced by the farmer is much greater in the west and south, and the receipts from dairy-farming and cattle-breeding and -fattening are greater. The prices of cattle and dairy produce were not reduced by international competition as were grain prices; on the contrary, they have risen. The peasant, therefore, ought not to be jealous of the industrial development. He gets a large profit because of the industrial population for all the products of the small farm.

Nevertheless, some groups of peasants in the west and south about the year 1893 passed through hard times. They suffered partly because of poor crops of food needed for cattle, partly in consequence of cattle diseases, and partly in consequence of lack of capital, of indebtedness, and of bad technique. Since that time all these evils have been largely removed. During the last decade agricultural instruction, agricultural insurance, agricultural co-operation, and the improvement of technique have made greater progress among the peasants than during the previous century. Yet the eastern landowners contrived successfully to form an alliance with the peasants of the other parts of Germany, with whom they maintained, during the hard times, an excellently managed agitation in favor of a policy of higher prices

for all agricultural products. But the great landowners could not win over the peasants by a programme of duties only on wheat and rye. They were obliged to demand at the same time what the peasants themselves desired—higher duties upon barley, cattle, dairy produce, etc. Through the compromise between the eastern and western agriculturalists the protectionist movement issued in demands, not for partial, but for complete, protection for agriculture. In a political sense it was a great step forward for the great landlords who controlled the elections in the country on the east to unite with the peasants who controlled the elections in the country on the west. In consequence of the distribution of electoral districts no longer representatives of the changing spirit of the times, they maintained from this time on a control over the situation. They contrived also to gain elective votes among the town population. The small shopkeeper and the small artisan were jealous of the great bazaars and of large production. By promising to fight in favor of the middle classes and against the upper classes, the agrarians found supporters among the town population.

In most countries the great industrial capitalists are inclined to make terms with those who control the political power of the state. Thus they grudgingly compromised with the agrarian protectionists when they saw that their influence was growing. Industrial capitalists, on the other hand, were not enchanted by the higher duties on food, and they feared retaliation against German protectionism by other nations. But they acted on the belief that the great and small landowners together would furnish efficient support against the Social Democracy and against radical democratic legislation controlled by the industrial workmen; and they submitted to the higher duties on food in order to conserve the industrial protection. Some of the most prominent manufacturers were convinced that when food became dearer the higher level of wages would be inevitable; but they also believed that a permanent advance in the prices of all articles of food would lead to reaction; they held that consequently the discussion would be confined to agricultural protection, and that in the general strife industrial protection would be preserved. This

argument is based on the assumption that the industrial capitalists should regard the help of the agrarians against the labor movement as more profitable to them than a combination of industrial capital and industrial labor, whose purpose would be to transform the economic policy of Germany in the interest of industry as a whole. Again, this argument supposes that the industrial protective duties are an advantage to the industrial capitalists of Germany. Most of these capitalists adhere to the first of these two propositions, but not all of them believe in the second. Nevertheless, to the present time among the industrial capitalists the protectionists are better organized than the free-traders.

One concession, however, was granted to those industries which could not exist without being able to export their goods to foreign markets. It was understood that when Caprivi's treaties should expire, new tariff treaties should be concluded with the most important European states. Both the protectionists and the free-trade wing were interested in securing an opportunity to send forth their exports, for none of them could dispense with the privilege of exportation. Thus all the industrial interests united in demanding, through new treaties of long duration, guarantees against continual enhancements of foreign and German duties.

On this basis, and with the support of the government, there has been formed since 1897 what the protectionists call the "alliance of all interests capable of defending the state against radicalism" (*Sammlung der staatserhaltenden Interessen*). The government took the advice of the large interests, especially of the protectionists, and prepared a new general tariff. After long debate and a somewhat irregular parliamentary proceeding, the new tariff, with some alterations, was adopted by the Reichstag and became law on December 25, 1902. It was provided, however, that the new general tariff should not yet go into force, but that it should serve as a basis for negotiating new treaties.

To this point we have studied the arguments and tactics of the interested parties and of the politicians. Were there no arguments whatever brought forward by independent persons, in

order to defend the new policy from the standpoint of the nation as a whole? At the first glance one phenomenon may be observed: The more protection became the practically dominating principle of commercial policy and of state railway rates, the more we observe in Germany a renaissance of all the old mercantilists' arguments. As in mercantilist days, persons whose authority might have entitled them to put forth better arguments repeated the obsolete argument of the passive balance of trade, and the argument that commercial treaties could be successful only if one party should contrive to block the other. Influential people prophesied that the coming treaties would be much more favorable to Germany, if the German tariff could be first raised before negotiations were undertaken. Foreign countries would be very glad to reduce their tariffs in order to get a reduction from the new high level of German duties. A high tariff would strengthen the position of the German negotiator. But the great landowners of the east were cautious people. They did not wish to see the proposed higher duties on grain reduced too much by negotiation, and so they fixed a minimum of grain duties below which negotiations were not allowed to go.

It cannot be said that the new mercantilism has been more successful than the old. Russia, Austria, Roumania, and Switzerland likewise adopted the theory that, if a higher tariff strengthens the negotiators of treaties, every intelligent state should strengthen its own negotiators by a high tariff. It is true that Germany was able successfully to conclude new treaties, or, more correctly speaking, to prolong Caprivi's treaties until the end of December, 1917, by introducing important alterations in the duties. But what was the nature of these alterations? Germany raised her duties, but other countries granted higher duties in exchange. Prince Bülow's government considered that it had won a success if the foreign duties were not much enhanced by the treaties of 1905, and the official introduction to the new treaties tells us that better concessions could not be got from foreign countries because Germany was not willing to concede more. Bluffing had not been a success.

As another argument in favor of higher agricultural duties

it was urged that it did not seem to be desirable to transform Germany more and more into an industrial country. Influential authors began to be enchanted with the idea of a self-supporting agricultural state; a strong national agriculture must be aimed at in order that Germany might become independent of a foreign food-supply, and in order that she might get better soldiers than from the industrial population. The argument of "no dependence upon foreign food-supplies" had, however, some very weak points. Since 1879 agriculture had been protected; and yet, as the population grew, the excess of imports over exports of food had grown almost continually. And more serious still was another fact. The dependence of the great landowners of the east upon foreign labor was such that foreign countries, by prohibiting the migration of workmen to Germany, could, in case of war, really stop the agriculture of eastern Germany.²

A greater impression on the political leaders of the country was produced by the military argument. A great mass of literature has been written on the question whether an industrialized country may furnish an army efficient enough and large enough to be able to fight as successfully as former Prussian armies did. Some points of the controversy are no longer debatable. It can be granted, first, that agriculture alone would not be able to pay the taxes and furnish the money indispensable for carrying on a great war; and, secondly, that to the present time there have been in Germany more persons fitted for military service than are needed for the army. There is now no lack of recruits at all; but there is a vigorous debate on the points whether, first, all the districts where agriculture prevails send better recruits and a higher percentage of persons fit for the army than do the industrial districts; and whether, secondly, the official statistics in regard to recruits are of any use for the solution of this problem. Finally, Professor Brentano has several times repeated that, even if industrial districts send a less percentage than agricultural districts of fit recruits, the more densely populated industrial districts may send a greater number of fit recruits per area,

² See Vol. XXXIV of *Landwirtschaftliche Jahrbücher*, Supplement I, p. 318 (Berlin, 1905).

because in these districts there are more persons at the disposal of the recruiting board.

The arguments for and against agricultural protection were seriously discussed. During the debates the industrial protective duties did not attract the attention of the public very much, and no very serious proof for their necessity was submitted. The conditions of industries were excellent; if the industrial employers demanded protection, they could only argue that agricultural protection had increased the cost of production, and that they needed compensation for the damage done by agricultural duties. But finally two arguments were devised for the defense of industrial duties: first, the expenses of industrial insurance for workmen against sickness, accidents, and infirmities of old age ought to justify special protective duties; and, secondly, the British and American worlds seem to be setting up a policy of autarchy, which would justify Germany in doing all she could to keep the German market for herself.

The really burning question concerning the effect of industrial protection upon Germany, in the present stage of her development, was quite another one: Does protection by import duties and railway rates really favor the monopolistic organizations, which dominate the coal and iron market and many other markets in Germany? It is very surprising that the government, when preparing the new tariff, did not seem to be concerned at all about the "cartell" question. Only after the tariff was disposed of was an inquiry about "cartells" begun. This inquiry was not at all a model for such investigations, and cannot be compared in its methodical value with English reports. But, nevertheless, the results were not without value. The main conclusion is that in truth the growth of monopolistic organizations in Germany has been strongly favored by the protectionist system of duties and railway tariffs. More than that, it has been proved that because of the monopolistic organizations abuses have occurred; but that the abuses concerning prices, etc., committed by the monopolists immediately cease whenever they are endangered by any real competition from abroad. It cannot be definitely claimed that the monopolistic organizations, which have once

grown strong, would all disappear when free trade in commercial and railway policies should be introduced; but it is very probable that most of the abuses of which people complained would disappear with the disappearance of the protectionist system.

At the time of these investigations the typical monopolistic organizations in Germany were "cartells" or syndicates. Not all of them were successful in all departments of German industries; on the whole, they were less successful where finished articles were produced for the national market and for exportation, than where articles in the first stages of production were produced. Those industries which produced finished articles complained that they were hampered by the practice of monopolists in selling at cheaper prices abroad than at home. The monopolistic organizations could not completely deny that these complaints were justified, and they granted private bounties based upon the exports of their customers. But those bounties were only grudgingly paid, and they were not regular and not always sufficient. The outcome of this situation leads all the producers of finished articles to strive as much as possible to concentrate and control in one concern all stages of the processes of production from beginning to end. More and more there grew up what Americans call "vertical trusts" and what Germans call *gemischte Betriebe*. In the last few months it would seem also that the horizontal trusts—the concentration of the whole stage of production in few hands—is making progress.

There can be no doubt, however, that the two most ardent champions of industrial protection, Germany, and the United States, develop industrial monopolistic organizations much more quickly and more radically than the free-trade country, *par excellence*, Great Britain. And it must also be added that the same monopolistic development which in America has been favored by private railways has not been hindered by the national railways in Germany.

III

To this point we have been engaged in indicating the tendencies which have led up to the tariff of 1902 introduced by Prince Bülow. How have affairs developed since that time? Is it

possible yet to say anything about the effects of the new policy? On the first of March, 1906, the treaties with Russia, Roumania, Servia, Italy, Austria-Hungary, Belgium, and Switzerland, which were formally modified prolongations of the old treaties, became effective. Since 1905 Germany has also concluded several treaties with smaller states. In addition, she grants and receives treatment as the most favored nation with many states; and she retains some treaties with smaller states wherein they grant certain duties to Germany without a reciprocal arrangement of German tariffs.

For a long time everyone has known when the new treaties would become effective. Compared with the previous rates, not only the German duties, but also those of her customers, chiefly Austria-Hungary and Russia, have been increased. In the new tariff Germany has increased the duties on bread-stuffs, "malt barley" (a problem for tariff interpreters), and on meat and cattle. There could be no surprise that before March 1, 1906, in view of the imminent rise of duties at home and abroad, Germany's imports and exports were immensely increased. It would have been possible, of course, that immediately after March 1, 1906, the markets in Germany and abroad should have been over-supplied. Thereupon a depression of trade and low prices would have been the consequence. But a different state of affairs was to be observed. Everywhere, more conspicuously in England than in Germany, a great boom was preparing. In Germany there was a special matter which was of only temporary importance. Many manufacturers were engaged in working up foreign orders before March 1, 1906, and they could not afford to deliver goods ordered for the domestic market. At this time these orders for the home markets became urgent. Thus the German manufacturers had an abundance of orders, not only for the domestic market, but also for exportation during the whole year of 1906, and even after that time. In free-trade England, however, the foreign commerce and home consumption had in 1906 increased in even a greater amount. But in truth Germany was benefited by the general prosperity of industry. The reaction must come, of course, but it has not yet come. Some manu-

facturers have complained that the rise of Austrian duties has affected the usual exports to Austria; but, on the whole, at the present writing, exports have been developed in a satisfying fashion. As in every boom period, there have been a great advance in prices, the establishment of new enterprises, and the investment of more capital in old ones.

The demand for investments has led to new orders coming in to many establishments. The rise of prices has been chiefly in raw materials and half-finished articles. The manufacturers of finished goods are disappointed because they cannot raise the prices of their products in the same proportion as the prices have risen in the earlier stages of production. Consumers will not pay such higher prices without a diminution of demand. But the rise of prices has not merely affected coal, metals, most raw materials, and half-finished articles, still other elements in the expenses of production have arisen. Prices have been affected partly in consequence of an increase of imperial taxes passed by the Reichstag in 1906. The income from the higher level of customs duties has not proved sufficient to cover the increasing expenses of the Empire. Several millions of the new revenue from customs were reserved specially for the insurance of widows and orphans of workmen. New taxes were levied which could not in all cases be prevented from falling upon industrial expenses of production. The expenses of production will be increased still more when the Prussian government has carried out its plan of introducing fees on river transportation; for these fees will make dearer a form of cheap carriage which so far had competed with the state railways and was independent of their system of rates.

The most remarkable phenomenon to be observed since the new treaties have gone into operation is that nearly all cattle products, especially meat, have risen enormously in price. Although this enhancement in the prices of food was prophesied, still the rise came sooner than anyone expected. While wheat and rye bread have not yet become sensibly dearer, yet meat and nearly all other agricultural products of daily consumption have risen in price. Not all this enhancement of price was artificially caused

by the tariff. At the time when the new tariff came into effect the price of cattle was already rising throughout Europe.

The prices of goods imported from foreign countries have been affected, not only by the customs tariff, but also by the veterinary measures and by the German meat-inspection bill. Still the effect has become distinctly apparent, because all the various circumstances have worked together. Living has become so dear that many municipal and some state administrations have been obliged to grant some additions to the salaries of the lower officials. The industrial workmen, moreover, took advantage of the industrial boom and obtained higher wages. But these higher wages have not been the means of improving their standard of living, because they are no more than the equivalent of the higher prices of food. It cannot be expected, therefore, that any greater efficiency of labor will result from what is only a compensation for the higher prices of food. Employers must pay more to get the same amount of work done. For the lower and middle classes Germany was formerly a land of very cheap cost of living. Now it is more expensive for these very classes to live in Germany than for the same classes in free-trade England. If higher prices of wheat and rye, and consequently higher prices of bread, should be added to the high prices of meat, the effect would be much more serious.

Meanwhile there is much discussion about another effect of the new policy. To the present day it has been a regular phenomenon, after duties have been raised by foreign countries, for German exporters to build manufacturing establishments in foreign countries, or at least to establish branches abroad, whenever it was no longer possible to export German manufactures. It may be that such an emigration of capital has already begun here and there since the new treaties; but the time is too short to prove the fact and test the assertions of capitalists.

On the other hand, how is agriculture developing under the new conditions? The first result is one which was prophesied by many of the opponents of the new policy. Rents and farm prices have risen in such a speculative way that no one can feel any doubt about an imminent danger. Persons who have bought land

at these high prices cannot obtain a profit even under the present high prices of agricultural products. Suffering will come anew to them as to the former owners, if prices are not again raised. Obviously not all farmers are suffering from these unsound conditions. Some did not purchase their land at the time of high prices, and they get more money for their products; but as consumers they also feel many effects of the general rise of prices. The increase in the rise of products is so violent that the most thoughtful agrarians feel somewhat like Polycrates when he had too much luck: they fear that the good luck will perhaps not last very long. Without doubt, after the industrial boom shall have passed there will come a reaction in public opinion. In the long run it will not be possible to govern an industrial country as if only agricultural interests existed. How quickly public indignation against artificial increases in the prices of food may develop has been shown by the experience in 1891, when a general rise of prices throughout the world was combined with a depressed condition of industry and with the perceptible results of agricultural protection. In such a case it would be very dangerous to uphold the protectionist system. The instant the agricultural protectionist duties are endangered the agrarians will not tolerate the industrial duties.

It is not wholly impossible, although not likely, that some reduction of the protective duties will in time be brought about by further commercial treaties. To the present time German commercial relations with England and her colonies, with the United States, and with Argentina have not yet been guaranteed by treaties of a definite character. But it will be very difficult by means of such treaties to carry through the necessary reductions of the German tariff. Apart from other difficulties, it is inevitable that reductions granted by treaties should not have a systematic, but an accidental, character. On the whole, it may be said that the chief features of the German protective system cannot be changed before people have ceased to believe in protection. Before such a change can come years must elapse, and to produce such a change there would also be needed the statesmen who really have the power to lead the nation. Heretofore the Ger-

man system of ruling has consisted in granting special favors of an economic character to those who will vote for the national budget. Moreover, the men who administer the state railways are so much imbued with protectionist ideas, and their system of rates is so much influenced by protectionism, that in order to reform the railway policy a radical change in the leading railway men will be absolutely necessary. Without a change, however, in the system of railway rates even such a radical reform of customs duties as was carried out under Peel and Gladstone in England would not be sufficient to give Germany the same blessings of free trade which England enjoyed as a consequence of her reforms.

Provided a tariff war with a foreign power should not arise to strengthen jingoism and the protectionist feeling, in the future some slight improvements of no fundamental character may be accomplished by means of new commercial treaties. Obviously a radical change would be brought about earlier should the United States of America adopt autonomous free trade as their commercial policy. Germany would be too much of a loser if she did not quickly imitate such a policy of the United States. It is, however, quite too optimistic to suppose that either of these two great nations will take such a step within the near future. At the present time the tendency to surpass other nations by increasing their tariffs is without doubt a more widespread practice than a tendency toward a reduction of duties. Under these circumstances it can be regarded as a distinct gain even if the two nations should strive only to oblige each other, and not to injure themselves by any further increase of tariff. But even a measure so beneficial as this would be difficult to carry through so long as each state regards every step in the direction of freer trade as a sacrifice to foreign interests.

WALTHER LOTZ

UNIVERSITY OF MUNICH